

# Instructions for Form FTB 3506

## Child and Dependent Care Expenses Credit

### General Information

Attach the completed form FTB 3506 to your return if you claim the child and dependent care expenses credit.

### What's New

Beginning with the 2007 tax year, registered domestic partners are required to file a joint California return or separate returns using the same rules applicable to spouses. However, for the 2006 tax year, registered domestic partners must continue to claim this credit using the single or head of household filing status.

### A Purpose

You may qualify to claim the 2006 credit for child and dependent care expenses, if you (and your spouse) paid someone in California to care for your child or other qualifying person while you worked or looked for employment. You must have earned income to do so. If you qualify to claim the credit, use form FTB 3506 to figure the amount of your credit.

If you received dependent care benefits for 2006 but do not qualify to claim the credit, you are not required to complete form FTB 3506. For additional definitions, requirements, and instructions, get federal Form 2441.

### B Differences in California and Federal Law

The differences between California and federal law are as follows:

- California allows this credit only for care provided in California.
- If you were a nonresident, you must have earned wages from working in California or earned self-employment income from California business activities.
- Federal adjusted gross income must be \$100,000 or less to qualify for the California credit.
- The California credit is a percentage of the federal credit as modified by California law.
- The California credit is refundable.

### C Qualifications

You may take the credit if **all eight** of the following apply.

1. If you are married, you must file a joint return. For an exception, see Section E, Married Persons Filing Separate Returns, on page 2.
2. Care must be provided in California for one or more qualifying persons. See Section D, Qualifying Person Defined, on this page.
3. You paid for care so you (and your spouse) could work or look for work. However, if you did not find a job and have no earned income, you do not qualify for the credit. If your spouse was a student or disabled, see the instructions for Part III, line 5, on page 3.
4. You (and your spouse) must have earned income (wages or self-employment income) during the year. See the instructions for Part III, line 4, on page 3 for more information on earned income.
5. You and the qualifying person(s) live in the same home for more than half the year.
6. The person who provided care was not your spouse, the parent of your qualifying child, or a person for whom you can claim a dependent exemption. If your child provided the care, the child must have been age 19 or older by the end of 2006.
7. You report the required information about the care provider(s) in Part II, line 1, and the information about the qualifying person(s) in Part III, line 2.
8. Your federal adjusted gross income is \$100,000 or less.

### D Qualifying Person Defined

#### Rules for Most People

A qualifying person is:

1. A child under age 13 who meets the requirements to be your dependent as a Qualifying Child. A child who turned 13 during the year qualifies only for the part of the year when he or she was 12 years old.
2. Your spouse who was physically or mentally incapable of self-care.
3. Any person who was physically or mentally incapable of self-care whom you can claim as a dependent (or could claim as a dependent except that the person had gross income of \$3,300 or more or filed a joint return).
4. Any disabled person not able to care for himself or herself whom you could claim as a dependent except that you (or your spouse if filing a joint return), could be claimed as a dependent on someone else's 2006 return.

### Qualifying Child

A Qualifying Child is a child who meets all of the following tests:

- **Relationship Test** - The child must be your son, daughter, stepchild, adopted child, eligible foster child, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of one of these. An adopted child includes a child who has been lawfully placed with you for legal adoption even if the adoption is not yet final. An eligible foster child must be placed with you by an authorized placement agency or by a court.
- **Age Test** - The child must be under 19 years of age or a full-time student under 24. (For the purposes of qualifying for the Child and Dependent Care Expenses Credit, the child must be under 13.)
- **Residency Test** - The child must live with you for more than half the year.
- **Support Test** - The child must not have provided more than half of his or her own support.
- **Joint Return Test** - The child must not have filed a joint federal income tax return with his or her spouse.
- **Citizenship Test** - The child must be a citizen or national of the U.S. or a resident of the U.S., Canada, or Mexico.

#### Qualifying Child of More Than One Person -- Tie-Breaker Rules

If...	Then the child will be treated as the qualifying child of the...
Only one of the persons is the child's parent	Parent
Both persons are the child's parent	Parent with whom the child lived with for the longer period of time. If the child lived with each parent for the same amount of time then the child will be treated as the qualifying child of the parent with the highest adjusted gross income.
None of the persons are the child's parent.	Person with the highest adjusted gross income.

### Divorced, Separated, or Never Married Parents

For divorced or separated parents, special rules apply in determining if your child meets the requirements to be your qualifying person. When parents file separate returns only one parent qualifies to claim a child as a qualifying person.

Even if both parents pay for child care for the same child, both parents cannot qualify for the credit. Some custody agreements designate which parent is entitled to the credit. However, the designated parent must meet all the qualifications in Section C, Qualifications, to claim the credit. To verify that your child meets the requirements to be your qualifying person use the table below.

#### RULES FOR DIVORCED, SEPARATED, OR NEVER MARRIED PARENTS

IF	AND	THEN
ALL <b>four</b> of the following apply: 1. Your child was under 13 and/or physically or mentally incapable of self-care when the care was provided. Children turning 13 during the year qualify only for the part of the year they were 12 years old. 2. One of the following applies a. You are divorced or legally separated from the other parent; b. You are separated under a written separation agreement; c. You and the other parent lived apart at all times during the last 6 months of the year. (This includes parents never married to each other.) 3. One or both parents had custody of the child for more than half the year. 4. One or both parents provided more than half the child's support for the year.	You were the custodial parent <b>and</b> you can claim the dependent exemption credit for the child.  You were the custodial parent and under the provisions of a decree of divorce, legal separation, or a written separation agreement, the noncustodial parent claimed the dependent exemption credit, or you signed a statement releasing the dependent exemption credit to the noncustodial parent.	The child is your qualifying person.  The child is your qualifying person.
One or more of the four statements above do not apply.	You are <b>not</b> the custodial parent.	The child is <b>not</b> your qualifying person.
		Use the "Rules for Most People" on this page.

**Custodial parent.** You are the custodial parent if you had physical custody of your child longer than the other parent during the calendar year. On days where custody is shared, the parent having custody of the child for more than 12 hours is considered to have custody for that day.

## E Married Persons Filing Separate Returns

Generally, if you are married, you must file a joint return to claim the credit. However, you can take the credit on your separate return if:

1. You meet all three requirements below:
  - You lived apart from your spouse at all times during the last six months of 2006.
  - The qualifying person(s) lived in your home more than half of 2006.
  - You provided over half the cost of keeping up your home.
2. You meet all the other qualifications in Section C, Qualifications.

## F Nonresidents and Part-Year Residents

1. You must complete and attach Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents, to your tax return, Long Form 540NR. If Part I of Schedule CA (540NR) is not fully completed, we may disallow your credit.
2. Nonresidents must have earned income from California sources to qualify for the credit. Beginning with tax year 2006, a nonresident servicemember's military wages are considered earned income from a California source for the purpose of qualifying for the credit.
3. Part-year residents must have earned income while a California resident or earned income from California sources while a nonresident to qualify for the credit.

## Specific Line Instructions

### Part I

#### Unearned Income and Other Funds

List the source and amount of **any** money you received in 2006 that is not included in your earned income (line 4 and line 5) but that was used to support your household. Include child support, property settlements, public assistance benefits, court awards, inheritances, insurance proceeds, pensions and annuities, social security payments, workers' compensation, unemployment compensation, interest, or dividends.

### Part II

#### Line 1

Complete line 1a through line 1g for each person or organization that provided the care in California. Only care provided in California qualifies for the credit. Use federal Form W-10, Dependent Care Provider's Identification and Certification, or any other source listed in the instructions for Form W-10 to get the information from your care provider. If your provider does not give you the information, complete as much of the information as possible and explain that your provider did not give you the information you requested.

If you do not give correct and complete information, we may disallow your credit unless you can show you used due diligence in trying to get the required information.

#### Lines 1a through Line 1c

Enter your California care provider's complete name (or business name), address, and telephone number (including the area code). We may contact your care provider to verify the information you provide.

If you were covered by your employer's dependent care plan and your employer furnished the care (either at your workplace or by hiring a care provider), enter your employer's name on line 1a. Next, enter "See W-2" on line 1b. Complete line 1c through line 1f. Then leave line 1g blank. But, if your employer paid a third party (not hired by your employer) on your behalf to provide care, you must provide information on the third party on line 1a through line 1g.

#### Line 1d

For each care provider, check one box indicating whether the care provider is a person or organization.

#### Line 1e

If your care provider is	Then enter on line 1e
An individual	The provider's social security number
Not an individual	The provider's federal employer identification number (FEIN)
A tax-exempt organization	"Tax-exempt"

#### Line 1f

Enter the complete address where the care was provided. Only care provided in California qualifies for the credit.

#### Line 1g

Enter the total amount you **actually paid** in 2006 to your care provider for care provided in California. Also include amounts your employer paid to a third party on your behalf. It does not matter when the expenses were incurred. Do not reduce this amount by any reimbursement you received.

## Part III

### Line 2

Complete column (a) through column (e) for each qualifying person for whom care was provided in California. If claiming more than three qualifying persons, attach a sheet of paper to your return with the required information and write "see attached." Write your name and social security number or ITIN on the sheet.

#### Column (a)

Enter each qualifying person's name.

#### Column (b)

Enter each qualifying person's social security number. Verify that the name and social security number match the qualifying person's social security card to avoid the reduction or disallowance of your credit. If the person was born in, and later died in, 2006, and does not have a social security number, enter "Deceased" in column (b) and attach a copy of the person's birth and death certificates.

Enter the social security numbers of the first two qualifying persons on Form 540, line 40 and line 41; Form 540A, line 28 and line 29; or Long Form 540NR, line 47 and line 48.

#### Column (c)

Enter the qualifying person's date of birth in the space provided or if the qualifying person is disabled (physically or mentally incapable of self-care), check the "Yes" box.

#### Column (d)

If you shared custody of the qualifying person(s), enter the percentage of time you possessed physical custody during 2006. If you have 50% or less physical custody of your child, you don't qualify for the credit.

#### Column (e)

Enter the qualified expenses you incurred and paid in 2006 for the qualifying person. Include only the qualified expenses for care provided in California. If the child turned 13 years old during the year, include only the qualified expenses for the part of the year the child was under 13.

Do not include in column (e) qualified expenses:

- You incurred in 2006 but did not pay until 2007. You may be able to use these expenses to increase your 2007 credit.
- You incurred in 2005 but did not pay until 2006. Instead, see instructions for line 11.
- You prepaid in 2006 for care to be provided in 2007. These expenses may only be used to figure your 2007 credit.

**Note:** A qualified expense does not include the amount you paid for education (school tuition) or the amount you received through a subsidy program.

**Qualified Expenses** are amounts paid for the care of your qualifying person while you worked or looked for work.

Qualified expenses include:	Qualified expenses do not include:
<ul style="list-style-type: none"><li>• The cost of care for the qualifying person's well-being and protection. If care was provided by a dependent care center, the center must meet all applicable state and local regulations</li><li>• Cost of pre-school or similar program below the kindergarten level</li><li>• Day camp, even if it specialized in a particular activity, such as soccer</li></ul>	<ul style="list-style-type: none"><li>• Child support payments.</li><li>• Payments made to the parent of your qualifying child</li><li>• Payments made to your spouse.</li><li>• Payments made to your child who is under age 19 at the end of the year, even if he or she is not your dependent</li><li>• Payments made to a dependent for whom you (or your spouse) can claim a dependent exemption</li><li>• Expenses paid by or reimbursed through a subsidy program</li><li>• Cost for education (school tuition) at the kindergarten level and above</li><li>• Overnight camp</li></ul>

## Line 4

Earned income Includes:	Earned income does not include:
<ul style="list-style-type: none"><li>Wages, salary, tips, and other taxable and nontaxable employee compensation including combat pay</li><li>Net earnings from self-employment</li><li>Strike benefits</li><li>Disability payments you report as wages</li><li>Active duty pay received by members of the armed forces is considered earned income regardless of whether the member is domiciled in this state or elsewhere</li></ul>	<ul style="list-style-type: none"><li>Pensions or annuities</li><li>Social security payments</li><li>Workers' compensation</li><li>Interest</li><li>Dividends</li><li>Capital gains</li><li>Unemployment compensation</li><li>Public assistance</li><li>Homeowner and Renter Assistance</li></ul>

Nonresidents and Part-Year Residents Only: Earned income from California sources includes:	Earned income does not include:
<ul style="list-style-type: none"><li>Wages, salary, tips, and other taxable and nontaxable employee compensation for working in California</li><li>Net earnings from self-employment from California business activities</li><li>Strike benefits related to California employment</li><li>Disability payments you report as California wages</li><li>Active duty pay received by members of the armed forces is considered earned income regardless of whether the member is domiciled in this state or elsewhere</li></ul>	<ul style="list-style-type: none"><li>Pensions or annuities</li><li>Social security payments</li><li>Workers' compensation</li><li>Interest</li><li>Dividends</li><li>Capital gains</li><li>Unemployment compensation</li><li>Public assistance</li><li>Homeowner and Renter Assistance</li></ul>

## Line 5

### Spouse Who Was a Student or Disabled

Your spouse was a **student** if he or she was enrolled as a full-time student at a school during any 5 months of 2006. A school does not include a night school or correspondence school.

Your spouse was **disabled** if he or she was not capable of self-care. Figure your spouse's earned income on a monthly basis.

For each month your spouse was a full-time student or disabled, enter on line 5 the larger of

- Your spouse's actual earned income for that month, or
- \$250 (\$500, if you have 2 or more qualifying persons).

If, in the same month, both you and your spouse qualified as either full-time students or disabled, only one of you receive treatment as having earned income of \$250 (or \$500) in that month. For any month that your spouse was not a full-time student or disabled, use your spouse's actual earned income for that month.

## Line 7

Use the chart on this page to determine the decimal amount to enter on line 7. Your federal adjusted gross income (AGI) is on Form 540A, line 12b; Form 540, line 13; or Long Form 540NR, line 13.

If your Federal AGI is:		The decimal amount on Line 7 is:
Over	But not over	
\$0	\$15,000	.35
15,000	17,000	.34
17,000	19,000	.33
19,000	21,000	.32
21,000	23,000	.31
23,000	25,000	.30
25,000	27,000	.29
27,000	29,000	.28
29,000	31,000	.27
31,000	33,000	.26
33,000	35,000	.25
35,000	37,000	.24
37,000	39,000	.23
39,000	41,000	.22
41,000	43,000	.21
43,000	No limit	.20

## Line 9

Use the chart below to determine the decimal amount to enter on line 9.

If your federal AGI from Form 540A, line 12b; Form 540, line 13; or Long Form 540NR, line 13 is:	The decimal amount to enter on Line 9 is:
\$40,000 or less	.50
Over \$40,000 but not over \$70,000	.43
Over \$70,000 but not over \$100,000	.34
Over \$100,000	.Stop. You do not qualify for this credit.

## Line 11

If you had qualified expenses for care that was provided in 2005 that you paid for in 2006, you may be able to increase your credit for 2006. Complete the worksheet on Side 2 of form FTB 3506. You will need a copy of your 2005 California tax return to complete the worksheet.

## Part IV

### Line 13

Dependent care benefits are:

- Amounts an employer paid directly to you (or your spouse), or to your care provider for the care of your qualifying person(s), while you worked.
- A day-care facility provided by your employer.
- Generally deducted from your salary.
- Shown in box 10 of your 2006 Form(s) W-2.

### Line 14

Enter the amount from federal Form 2441, line 13.

### Line 15

If you had a flexible spending account, any amount included on line 13 that you did not receive because you did not incur the expense is considered forfeited. Do not include amounts you expect to receive at a future date.

### Line 17

Enter the total of all qualified expenses incurred in 2006. It does not matter when the expenses were paid.

**Note:** A qualified expense does not include the amount you paid for education (school tuition) or the amount you received through a subsidy program.

**Example:** You received \$2,000 cash under your employer's dependent care plan for 2006. The \$2,000 is shown in box 10 of your Form W-2. You incurred \$900 of qualified expenses in 2006 for the care of your 3-year-old dependent child. Enter \$900 on line 17, but report the entire \$2,000 on line 13.

For all other lines, follow specific line instructions on the form. For additional information, get federal Form 2441 or federal Publication 503, Child and Dependent Care Expenses.

## Worksheet

### Line 12 and line 14

You need the 2005 form FTB 3506 instructions to complete the Credit for 2005 Expenses Paid in 2006 Worksheet, on Side 2. Forms are available from our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) or by calling (800) 338-0505.

### Line 12

Enter the decimal amount from the chart in the line 7 instructions of the 2005 form FTB 3506 that corresponds to your 2005 federal adjusted gross income.

### Line 14

Enter the decimal amount from the chart in the line 9 instructions of the 2005 form FTB 3506 that corresponds to your 2005 California adjusted gross income.